CURRENTS

WESTERN CANADA'S ECONOMIC BULLETIN

CanadaWest FOUNDATION

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→ THE WEST'S FREQUENT FLYERS → TRUCKS V. CARS → TRANSPORTATION INFRASTRUCTURE

Monthly Highlights

Canada's economic recovery could soon lose some speed.

Real GDP for Canada advanced 1.0% in the first quarter. While this marked a slight acceleration from the previous quarterly gain of 0.8%, the fact that inventory increases were the main contributor to this quarter's advance does not point to long-term sustained growth. Meanwhile, consumer spending remained unchanged, while business investment in plant and equipment rose 3.2%.

In June, job creation accelerated in Alberta with a gain of 22,000 jobs, the largest in five years. This advance finally brought the province back to its pre-recession employment level of October 2008. Alberta's job recovery took 32 months and was the slowest in Canada. Elsewhere in the West, the June employment news was less positive as job numbers declined in all other provinces.

In May, consumer prices rose significantly compared to 12 months earlier, primarily as a result of higher gasoline prices. The national inflation rate reached 3.7%, the highest since March 2003. In the West, increases ranged from 3.9% in Manitoba to 2.8% in Alberta. Excluding gasoline, which represents about 4% of household spending, Canada's inflation rate was 2.4%.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,269	2,091	525	622	17,337	June 2011
% change from previous month	0.4	1.1	0.3	0.4	0.2	
Unemployment rate (%)	7.3	5.6	4.9	5.5	7.4	June 2011
Change in percentage points from previous month	0.3	0.2	-0.1	0.2	0.0	
Participation rate (%)	64.7	73.7	69.1	69.0	66.9	June 2011
Average weekly earnings ($)	839.51	1,045.97	887.72	811.51	876.44	April 2011
% change from previous month	0.3	1.4	2.4	1.1	0.7	
Inflation						
Consumer Price Index (% change from May 2010)	3.1	2.8	3.4	3.9	3.7	May 2011
Economic Activity						
Retail trade ($M)	4,969	5,235	1,320	1,343	37,421	April 2011
% change from previous month	1.3	1.6	0.1	-0.8	0.3	
Wholesale trade ($M)	4,115	5,426	1,594	1,192	46,760	April 2011
% change from previous month	-0.9	-3.9	-10.6	0.3	-0.1	
Manufacturing sales ($M)	3,174	5,875	954	1,243	46,671	April 2011
% change from previous month	-0.9	2.3	-5.3	-0.7	-1.3	

Unless otherwise noted, data are seasonally adjusted. Source: Statistics Canada

In April, retail sales grew 1.6% in Alberta, the largest increase in the country, with gains spread across store types. Sales growth was also strong in BC (+1.3%). Wholesale trade was down in three western provinces out of four, with Saskatchewan reporting the largest decline nationally.

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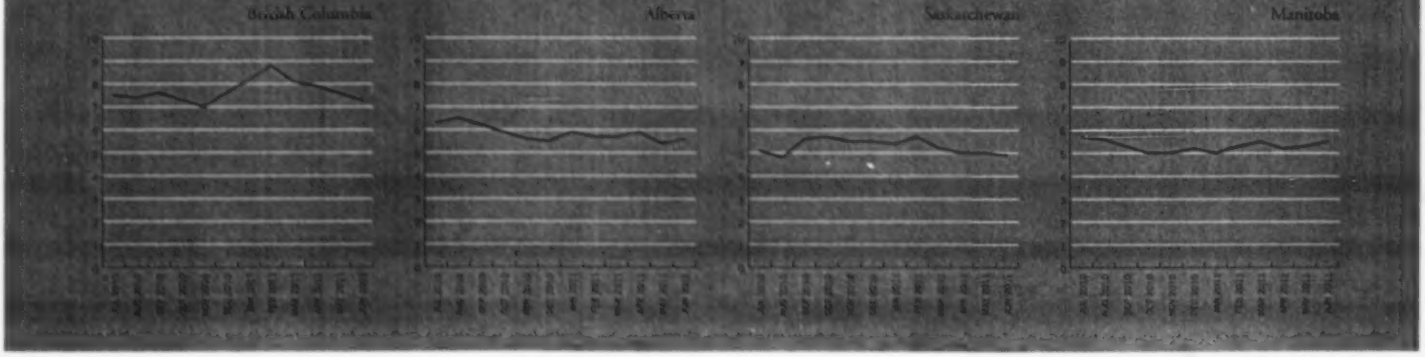
MONTHLY UNEMPLOYMENT RATE, JULY 2010 – JUNE 2011 (%)

Source: Statistics Canada



Monthly Feature

Opening Western Skies to International Air Traffic

The western provinces are home to four of Canada's seven busiest airports. Nearly 36 million passengers passed through Vancouver, Calgary, Edmonton and Winnipeg in 2009. However, most air traffic in the region is comprised of short-haul and other domestic flights. Vancouver International, by far western Canada's largest airport and the second-busiest in the country, served 15.5 million passengers in 2009. Of those, international travelers (to non-US destinations) accounted for 21.8% of air traffic, compared to 30.3% out of Pearson International in Toronto and 38.0% of travel out of Pierre Elliot Trudeau airport in Montreal.

The figures for Calgary, Edmonton and Winnipeg are even lower than for Vancouver. Only 9.8% of travel out of Calgary in 2009 was to non-US international destinations, along with 5.8% of travel from Edmonton and just 3.6% from Winnipeg.

One contributing factor to the relative lack of direct international flights from western Canadian airports is Canada's network of bilateral air services agreements (ASAs). ASAs dictate the terms for passenger and cargo traffic between two countries, including the frequency of flights, which airports may be used, whether the carrier can proceed to a third country, seat capacity, and even designation of air carriers. In most cases, these agreements fall well short of providing full and open access to international air travel markets and often limit the extent to which foreign air carriers can participate in direct air travel to Canada.

These policy-based limitations on direct commercial air travel carry an economic cost for western Canada. Direct passenger and cargo flights can be an important catalyst for generating trade, investment and tourism by making it easier, faster, and less expensive for foreign businesses and tourists to travel to the western provinces. For these reasons, the Premiers of BC, Alberta and Saskatchewan have been vocal in their desire for the federal government to negotiate more liberal air services agreements with other countries, especially with those in the Asia-Pacific region. The three premiers issued a joint declaration in 2009 to that effect, calling for the federal government to adopt an Open Skies policy on international air travel. Open Skies agreements allow market forces rather than ASAs to determine commercial decisions on air services.

Introduced in 2006, Canada's current international air travel policy falls short of the wishes of the western premiers. Some progress has been made in liberalizing air travel to Asia-Pacific in recent years, as the federal government has signed new or updated ASAs with South Korea (an Open-Skies-type agreement), Japan, and New Zealand. However, further progress has been limited, largely because of concerns about the impact of increased competition from foreign carriers on Canadian airlines.

Notwithstanding this potential impact, removing non-market-based restrictions on air travel to and from the Asia-Pacific region could be of tremendous value to western Canada. Increased commercial and tourism linkages would generate significant economic benefits in the region – benefits that would far exceed the potential costs.

2/3

of western Canada's non-US international flights go through Vancouver.

PASSENGER TRAFFIC THROUGH CANADA'S BUSIEST AIRPORTS – 2009
(000s OF PASSENGERS)

		International			
	Domestic	United States	All others	Total	Total traffic
Toronto (Pearson)	12,390	7,788	8,760	16,548	28,938
Vancouver	8,356	3,762	3,386	7,148	15,504
Montreal (PET)	4,560	2,702	4,445	7,147	11,707
Calgary	7,835	2,321	1,100	3,421	11,256
Edmonton	4,467	983	337	1,320	5,788
Ottawa	3,030	680	379	1,060	4,090
Winnipeg	2,731	455	119	574	3,305
Halifax	2,674	342	302	643	3,318

Source: Statistics Canada, Air Carrier Traffic at Canadian Airports. Note: Figures include both embarking and disembarking passengers.

DID YOU KNOW?

Vancouver International is the second busiest airport for cargo traffic and passenger traffic in Canada, behind only Pearson International Airport in Toronto.

Canada has signed 28 new or updated bilateral Air Services Agreements since 2007. Of those agreements, six were with Asia-Pacific countries: Singapore (2007), Philippines (2008), Japan (2007 and 2009), South Korea (2009) and New Zealand (2009).

There were 5.1 million passengers on international flights (not including the US) to and from western Canadian airports in 2009.

Canada has Open Skies agreements in place with the following countries/markets: United States, Barbados, Dominican Republic, Iceland, Ireland, New Zealand, South Korea, Jamaica, Trinidad and Tobago, El Salvador the European Union and Switzerland.

BEHIND THE NUMBERS

Rising gasoline prices are not dampening western Canadians' enthusiasm for large vehicles.

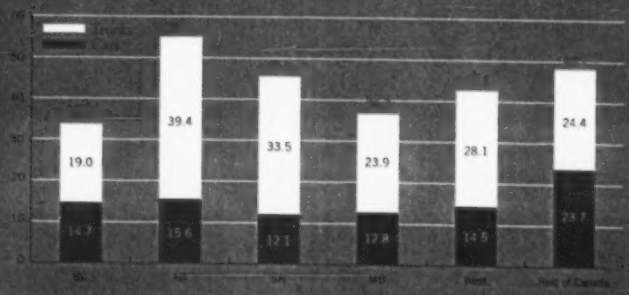
While gas prices in western Canada were more than 20% higher in April 2011 compared to a year earlier, there is no evidence to suggest that consumer preferences are shifting toward smaller, more fuel-efficient vehicles. For the region as a whole, sales of trucks, SUVs, vans and other large vehicles grew by 13.9% from January to April 2011 compared to the same period in 2010. Meanwhile, sales of smaller passenger vehicles fell by 3.1%.

This trend further reinforces existing differences in vehicle ownership across Canada. In general, western Canadians buy larger, more expensive cars and trucks compared to their counterparts in other provinces. Over the last five years, close to 61% of all vehicles sold in western Canada were trucks, SUVs and other larger vehicles. By comparison, that class of motor vehicle accounted for less than 45% of vehicles sold in other provinces.

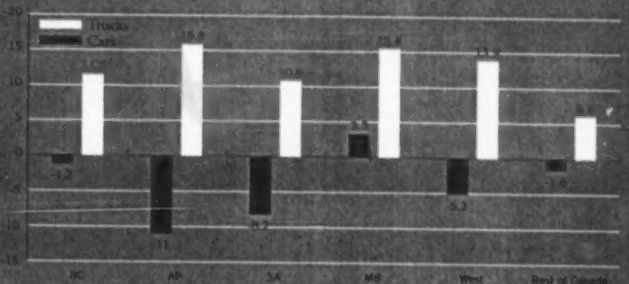
69.2%

of new motor vehicle sales in western Canada from January to April 2011 were trucks, SUVs and other large vehicles.

NEW MOTOR VEHICLE SALES BY PROVINCE 2010
(VEHICLES SOLD PER 1,000 RESIDENTS)



GROWTH IN MOTOR VEHICLE SALES BY TYPE
(% GROWTH, JAN-APR 2010 TO JAN-APR 2011)



Note: Data for BC also includes Yukon, Northwest Territories and Nunavut. Data on trucks include minivans, sport-utility vehicles, vans and buses.
Source: Statistics Canada

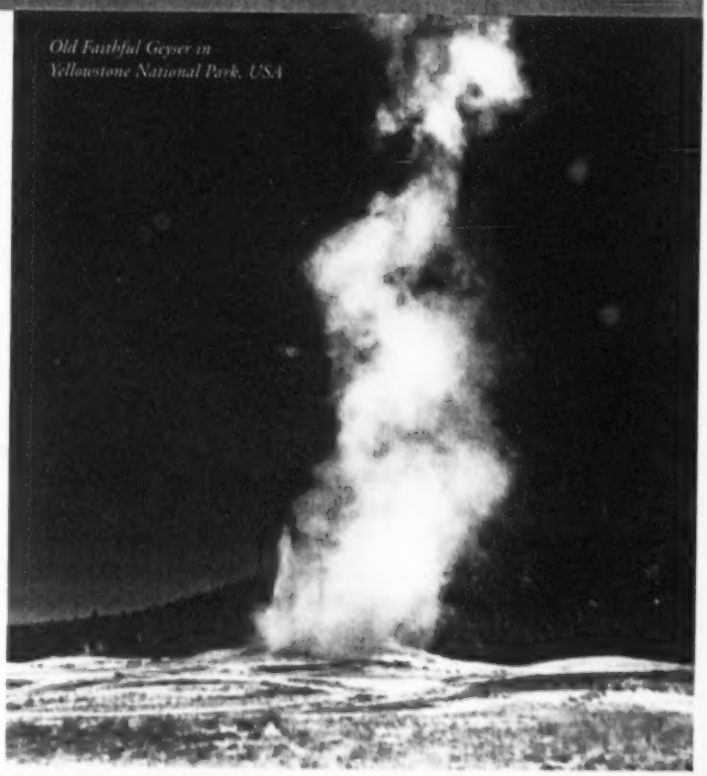
Energy Focus: Alberta

Geothermal Energy

Lost in all the attention paid to Alberta's wealth of crude oil, natural gas and coal is the fact that the province also has significant undeveloped potential in another key resource: geothermal energy.

Geothermal energy – heat energy from inside the Earth – can be utilized in one of two ways. The heat can be harnessed by pump to warm individual buildings, or water can be injected underground to create steam with which to generate electricity.

Given Alberta's extensive experience with oil and gas drilling, the province appears well-suited to explore geothermal power. Indeed, the logical piggy-backing of geothermal and petroleum development is beginning to occur on a small scale. Borealis GeoPower is in the process of developing a small geothermal plant northeast of Edmonton in the Swan Hills area. The water used in enhanced recovery techniques retains sufficient heat as to be able to generate electricity, which could be used to power oil development, saving money, energy and water.



Old Faithful Geyser in Yellowstone National Park, USA

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OPINION

BY MICHAEL HOLDEN, SENIOR ECONOMIST

Transportation Infrastructure: Key to the West's Economic Future

We think of the western provincial economies as largely being driven by the resource sector: energy, mining, forestry and agriculture, as well as their related supporting and secondary processing industries. However, transportation infrastructure is the foundation upon which the successful operation of those industries – and our standard of living more generally – is maintained.

From an economic standpoint, there are two pressing sets of transportation infrastructure needs in western Canada. The first is ensuring that we have sufficient capacity for the smooth and efficient flow of goods and services across our borders. The second is addressing the municipal infrastructure shortfall facing our cities.

In the first case, it is critical that transportation infrastructure not become a bottleneck to trade. As small, open economies, the western provinces rely on access to foreign markets to maintain their standard of living. Since the US is by far the region's largest market, this means ensuring that our road and rail capacity to the US is sufficient and that we have streamlined and well-functioning border crossings. An estimated $409 million in goods crosses the border between the western provinces and their US neighbours every day.

We also need to look ahead and anticipate future demand pressures, especially from the Asia-Pacific region where two-way trade with the West is booming. Governments have already taken action to build additional infrastructure to accommodate that trade, most notably through the Asia-Pacific Gateway and Corridor Initiative. However, all levels of government need to be vigilant to ensure that infrastructure capacity continues to keep pace with the demands of growing trade.

Lastly in terms of trade and transportation issues, pipelines are a vital but often overlooked component of our transportation infrastructure. While there is pipeline capacity to accommodate energy exports to the US, the infrastructure does not exist to transport oil and gas economically to overseas markets in any meaningful quantity. An uncertain outlook for energy demand in the US, combined with booming demand from China and other Asian markets has underscored the need to address this issue. The challenge for regional and federal governments is to do so in such a way as to respect the environmental and safety concerns expressed by environmental groups, local municipalities and First Nations communities.

The second major transportation issue facing western Canada is the municipal infrastructure shortfall facing our cities. It is critical that our major urban centres, which are the engines of growth in the western Canadian economy, have world-class road systems and public transit. Without critical urban infrastructure, western Canadian cities will be less economically competitive, our productivity will fall, and our standard of living will decrease.

Previous Canada West Foundation research shows that the reported infrastructure funding shortfall in western Canada is significant. The combined infrastructure needs in western Canada's seven largest cities over the next ten years is estimated at $63.0 billion, of which only $21.5 billion has funding currently in place. The bulk of the remaining $41.5-billion funding shortfall is in municipal transportation infrastructure, with some additional shortfalls in parks, recreation and other community/cultural infrastructure.

One possible solution to the municipal infrastructure funding shortfall is to introduce a small, locally-levied sales tax piggybacked onto the existing goods and services tax (GST) and to earmark the revenues generated for specific infrastructure projects. While such a tax would face a number of administrative and legislative obstacles, not to mention public resistance, it would provide cities with an important new revenue source with which to address their infrastructure deficits.

For more information on municipal infrastructure funding, download "The Penny Tax: A Timely Tax Innovation to Boost Our Civic Investments" from the Canada West Foundation website (www.cwf.ca).

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